PROPOSALS FOR THE TAXATION OF WEALTH IN GREAT BRITAIN

The national debt of Great Britain has reached £8,000,000,000.[1] From the date of the reluctant admission by the Chancellor of the Exchequer last autumn that the debt on March 31, 1920, would stand at slightly more than that amount, all political camps of the country have bestirred themselves actively in devising methods of payment. Apart from the repudiation of the debt, a suggestion which has received little serious attention except from labor spokesmen representing the extreme left, two types of remedies have been under consideration in financial councils.[2] According to the first, the problem of the reduction of the national debt is hardly more than that of continuing the present high rate of taxation, particularly the heavy income tax, until the burden of debt shall in some measure have been lightened—a dreary but conventional and undisturbing proposal. Viewed in another light, however, the unprecedented weight of national debt imposes upon the nation an unprecedented obligation, and necessitates devising a method of speedy and effective release. The various proposals for a levy on capital or a levy on war fortunes have been brought forward with the intention of clearing away the heavier part of the burden with a few bold strokes.

The proposals for a levy on capital antedate the close of the war, and represent an early recognition of inevitable weight of the after-war burden. Writing in 1916, in an article on "A Revolution in the Income Tax" (one of the collection composing the Fabian Research Society's pamphlet *How to Pay for the War*) Sidney Webb advocated a 10 per cent tax on capital.[3]

[1] *Revised Financial Statement*, 1919–20, issued by the Chancellor of the Exchequer, Oct. 23, 1919 (Cmd. 377).

[2] Mr. J. M. Keynes's proposal for the cancellation of all interallied indebtedness (*Economic Consequences of the Peace*, pp. 252–65) affects only the external debt, and is therefore not taken into consideration here. The greater part of the national debt of Great Britain is owed within the country.

[3] Fabian Research Society, *How to Pay for the War*, pp. 260, 263.

> Even an Income Tax at ten shillings in the pound—even if augmented by every kind of indirect taxation that the ingenuity of the Chancellor of the Exchequer can devise—may possibly not be sufficient to make both ends meet in that momentous first or second Budget of Peace . . . . . What would be required would be, *once for all*, a lump sum contribution—a Special War Levy—of 10 per cent of the capital value of all private property.

This proposal for a capital levy was accompanied by one for a "citizen tax" on all men and women registered as electors and possessing less than the minimum amount of property to be taxed according to the first method.

Little has been heard of the "citizen tax," but the capital levy, apparently at first projected as a means of meeting ordinary expenses after the war, soon became a familiar proposal for meeting the obligations of the rapidly accumulating war debt. By the end of the year 1917 the plan had received favorable attention from influential sections of the press,[1] was espoused by the Labor Party, and had been given qualified approval by the Leader of the House of Commons,[2] in reply to a trade-union deputation.

In the spring of 1918 the plan came up for consideration in the House of Commons. Sydney Arnold (Labor) advocated a capital levy for meeting war liabilities, and set forth his plan in detail.[3]

> I believe that in all for the purposes of a capital levy the taxable capital of the country will amount to about £24,000,000,000.
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> The proposal I wish to make is that on the individuals who own capital there should be two levies. This first levy should be made as soon as possible, but that will probably not be until after the end of the war, and the second levy should be made two years later. The levies would be made and paid after the manner of the Death Duties. I wish to make it perfectly clear that the levies will be on individuals; they will not be on banks and limited companies . . . . .
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> The average yield of the Death Duties is, in all, about 10 per cent of the property passing at death, but for the purpose of the capital levies, I would propose that the scale should be somewhat increased, so as to make the average yield of each levy about 12½ per cent of the total capital. The scale would

[1] E.g., the *Round Table* and the *Daily News*.

[2] *Parliamentary Debates, Commons*, Vol. CXV (1919), col. 441.

[3] *Ibid.*, Vol. CV (1918), cols. 894–96.

be a graduated one, on the same principle as the Death Duties scale, but with a somewhat steeper graduation. The small capitalists, those below £1,000, would be exempt.

Mr. Arnold was supported by Mr. Philip Snowden (Labor). The project was opposed, and was dropped before it reached a close issue.

The proposal was revived with greater vigor in the spring of 1919. In introducing the budget in May, the Chancellor of the Exchequer (Austen Chamberlain) gave his opinion of the weaknesses of the project, especially its effect as a deterrent on the saving without which industry must wither, and emphasized the superiority of income and death duties. At the time of the second reading of the Finance Bill an amendment carrying a capital levy was proposed, but was lost.[1]

In the autumn of 1919, after the Chancellor's speech showing the debt of over £8,000,000,000 and the unexpectedly large deficit for the year, J. R. Clynes (Labor) called for a levy on capital and a reversion to the state of war fortunes. Sir Donald Maclean (Independent Liberal) in opposing the capital levy, introduced the question of a levy on war profits—a plan which supplanted that of the capital levy and in turn gave way to one for the taxation of war-time increases in wealth—but contended that the difficulties and disadvantages of the taxation of profits outweighed its advantages. At the same time the capital levy was under criticism in the House of Lords as an inequitable and inexpedient measure.

The early months of the present year have seen the proposal in its third guise, that of a plan for taxing war wealth, congeal into a definite form. The Commission of Inquiry requested by Mr. Clynes in the House of Commons in the spring of 1919[2] has come into being as a Select Committee of the House of Commons to inquire into the practicability of a tax on war-time increases in wealth. This Committee has had submitted to it memoranda prepared at the instigation of the Chancellor of the Exchequer by the Board of Inland Revenue,[3] dealing with a levy on war

[1] *Ibid.*, Vol. CXVI (1919), col. 325. [2] *Ibid.*, Vol. CXVI (1919), col. 273.

[3] *Memoranda by The Board of Inland Revenue on Increases of Wealth (War).* Cmd. 594, 1920.

increases of wealth. At the first meeting of the Committee in February the Chancellor expressed his desire for a specific pronouncement by budget time as to whether there should be a tax of this kind and how much it would yield, even if it should not be possible to have a bill ready for introduction in so short a time.[1]

In the above-mentioned memoranda the Board of Inland Revenue recognizes the fact that the imposition of a tax on war-time increases of wealth would transcend in difficulty any previous effort at taxation in Great Britain. They maintain that a levy on war wealth in order to be practicable should not fall exclusively upon war profits, but upon the increase in the wealth of individuals within a definite period, preferably June 30, 1914, to June 30, 1919. The aggregate net increase of wealth during this period is estimated at £4,180,000,000, making the present total wealth of the country £15,000,000,000. The two (alternative) methods of taxation suggested by the Board would yield £900,000,000 and £1,000,000,000 respectively, or from 11 to 12 per cent of the amount of the national debt. The proceeds should go toward the redemption of the debt.

In determining the basis of taxation, the following recommendations are made: the general exemption limit should be £5,000; allowance should be made for economies and savings made in furtherance of the war, and consideration should be given to the fall in the value of money. The income tax procedure should be followed in assessing the wealth of husband and wife, and in providing for allowances for children. Graduated rates should then be applied to the net increase in wealth in the hands of the individual taxpayer.

One of the suggested scales of rates consists of a duty of 40 per cent on an increase of up to £50,000, and 60 per cent above; these rates to be increased to 45 and 65 per cent where the total fortune after the war stands at more than £250,000. The alternative system provides a 40 per cent duty on a 50 per cent increase of capital and a 60 per cent duty on more than 50 per cent increase. It is estimated that the latter scale would produce the larger revenue.

[1] *London Daily Telegraph* (February 21, 1920), pp. 13, 14.

The influence of Sydney Arnold's scheme for a capital levy as seen in the Board's recommendation that the obligation to give notice of liability should be placed upon the taxpayer himself, with the punishment for failure to do so similar to the punishment for evasion. Other details of Mr. Arnold's plan are embodied in the suggestion that both installment and lump-sum payments should be provided for, with a discount for the latter, and in the recommendation that payment should be accepted in cash, government stock, or securities.[1]

The acceptance of such a scheme of taxation now seems well within the range of possibility. The Chancellor of the Exchequer, who formerly declared that he would give no support to a capital levy, now regards "a levy on capital as justifiable only if applied to the reduction of debt"[2] and is in the position of urging the Select Committee on War Increases in Wealth to prepare a bill embodying its conclusions. On the other hand, the moneyed interests of the country are as active in opposing the project as they were in the early days of the discussion of the capital levy. The Manchester Chamber of Commerce adopted the following resolution on March 9:

> That the Manchester Chamber of Commerce considers that, apart from the existing duties and taxes, further revenues for any proposed additional reduction of the National Debt should be provided gradually by taxation of current profits and current income, and not by the confiscation of capital, which is so necessary for the expansion and development of industry.[3]

The effort to tax capital has thus shifted from the proposal of a levy on all existing capital—the "conscription of wealth"—at a 10 or $12\frac{1}{2}$ per cent rate, to an attempt to reach the profiteer through the taxation of war profits, and finally, to a carefully framed proposal, worked out by so experienced an organization as the Board of Inland Revenue, for the levying of a graduated tax on war-time increases in wealth.

The arguments against a levy on capital have dealt with (1) the economic consequences of such a tax, (2) the equity of

[1] Sydney Arnold, "A Capital Levy: Realization and Valuation," *Economic Journal* (June, 1918), pp. 157–66.

[2] *London Daily Telegraph* (February 21, 1920), p. 14.

[3] *Manchester Guardian* (weekly edition), March 12, 1920.

the method, and (3) problems of administration. The discussion which now centers around a tax on war-time increases of wealth follows the same general lines, with increased emphasis upon the difficulties of collecting the tax.

It has been forcefully urged that a tax on capital would destroy or at least partially cripple the industry of the country, discourage saving at a time when industrial reconstruction is imperative, and stimulate an exodus of capital to less heavily burdened countries.[1] In return it has been argued that many of the anticipated consequences are similar to those which were prophesied for the income tax in its present form, and which have failed to result from it; while others may be anticipated as well from a continuance of the present high rate of income tax, recourse to which is generally accepted by both parties to the discussion as the main practicable alternative to a levy on wealth in some form. With regard to the tendency of both capital and income taxes "to check productivity to some extent" a double-edged comment is added by Professor Pigou:

> Though current opinion regards a high income-tax as injurious to production, there is no real proof that it is so. Some people, no doubt, will work less hard if they know that a quarter of their earnings will be taken away by the State, but other people, anxious to maintain their standard of life, will work harder; while yet others, particularly those men of enterprise and force who value high earnings as evidence of achievement rather than for their own sake, will not be affected at all. . . . . But the argument has ignored the important fact that income-tax, at all events as at present organized, differentiates very strongly against saving. Income that is spent on consumption pays the tax only once, but income that is invested pays it twice—once in itself and once in the fruits that the investment subsequently yields.[2]

Other exponents of a capital levy see in the projected change an actual relief to large numbers of business men.

> Business men with moderate incomes will find the levy much less hindrance to their business than the heavy income tax which would otherwise

[1] F. Y. Edgeworth, *A Levy on Capital* (1919); W. W. Paine, *The Case against a Capital Levy* (1919); W. R. Scott, "Some Aspects of the Proposed Capital Levy," *Economic Journal* (September, 1918), pp. 247–67.

[2] A. C. Pigou, "A Special Levy to Discharge War Debt," *Economic Journal* (June, 1918), pp. 135–56, especially pp. 139–40.

have to be imposed. The persons who will feel the weight of the levy most heavily will be the men of great wealth and those living without personal exertion on the proceeds of their investments.[1]

Further, it is maintained that although a tax on capital for the purpose of redeeming a part of the national debt would effect a certain amount of *redistribution* of capital, it would not *diminish* the available industrial capital of the country except in so far as the debt is held abroad.[2]

With respect to fairness and equity, the issue has been defined with equal clearness. On the one hand it is claimed that the taxation of capital represents an abandonment of the "ability to pay" principle, since it is the current income of an individual which is the measure of his tax-paying capacity.[3] In the case of a tremendous emergency like war, however, it may be more equitable to charge expenses upon resources rather than upon income—a contention which would probably be readily admitted if all resources were in the form of food and shells and guns.[4] With the state, as with the individual or corporation, expenditure may be divided into revenue expenditure and capital expenditure.

> So far as the community is concerned, its strictly current or revenue expenditure might properly be met by an annual tax on the revenues of the community, whatever shape that tax on revenue might take. On the other hand, abnormal expenditure whose purpose or necessity is more nearly related to the permanent interests of the community falls rather under the head of capital expenditure, to be met out of the capital resources of the State.[5]

Moreover, since about three-fourths of the capital of the country is in the hands of persons over 45 years of age, a tax on capital would go far to adjust the balance in the hands of those who were not forced to give their physical strength in the war.[6]

[1] F. W. P. Lawrence, *A Levy on Capital* (1918), p. 77.

[2] Arnold, *op. cit.*, p. 157; A. Hook, "A Tax on Capital and Redemption of Debt," *Economic Journal* (June, 1918), pp. 167–75, especially p. 170; J. A. Hobson, *Taxation in the New State* (1919), pp. 211-12.

[3] A. A. Mitchell, "A Levy on Capital," *Economic Journal* (September, 1918), pp. 268–75, especially p. 271; J. C. Stamp, "Special Taxation of Business Profits," *Economic Journal* (December, 1919), pp. 407-27, especially p. 410.

[4] Pigou, *op. cit.*, p. 144.

[5] Hook, *op. cit.*, p. 169.

[6] Pigou, *op. cit.*, pp. 145, 146.

At the present time, with the growing sentiment toward a method of taxing wealth which will reach war-time increases, the problems of valuation and collection are absorbing more and more attention. The valuations necessary for the collection of the death duties form one of the few pertinent analogies, and these valuations are made on the average only once in thirty years. The practical difficulties are recognized by the tax authorities to be greater than those involved in any previous effort at taxation. Nevertheless, working from the methods suggested by Sydney Arnold in his speeches in the House of Commons in 1918 and 1919 and described in his article in the *Economic Journal* for June, 1918, and adding the necessary details from the wealth of its own experience, the Board of Inland Revenue has been able to make out a plan for fixing the basis and rate of taxation and for allowing for various methods of payment. In later testimony before the Select Committee on War Increases in Wealth the method of valuation devised for private firms and companies by the Board has been considered in detail, and the representative of the Board has presented his opinion that the plan provides ample safeguards against hindrance to business through the operation of the tax.[1]

Only a year ago Mr. Arnold's proposal for a capital levy was described in the House of Commons as "not even a socialist proposal. It is an anarchist proposal, born of evil times. . . . . The proposal was born of spite."[2] Within the year a plan for taxing war wealth has been elaborated by one of the most able and experienced tax boards in the country, received with tentative approval by the Chancellor of the Exchequer, and given careful and unimpassioned scrutiny by a Select Committee of the House of Commons. If the changing sentiment is reflected in a decision to employ the tax, a rapid readjustment of conventional tax theories must follow.

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[1] *London Daily Telegraph*, March 10, 1920.

[2] *Parliamentary Debates, Commons*, Vol. CXVI (1919), col. 306.